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Commercial Aviation in US

- Key economic driver - supporting over 10 million jobs
- Contributes \$700 billion to US GDP annually
- Delta Air Lines is the largest carrier both in the US and in the world
- Operates to more destinations than any other airline--388 destinations over 66 countries
- Over 70,000 employees worldwide

History of Delta Air Lines in Michigan

- Delta Air Lines merged with Northwest Airlines in October 2008
- Operated in Michigan since 1958
- Operated a hub in Detroit since 1987
- Operates at 15 of the 17 commercial airports in Michigan

Delta Air Lines in Michigan

- Over 7500 employees
- Helps support over 18,000 jobs at Detroit Metro Airport
- Over 500 daily flights out of Detroit
- Carries over 27 million passengers a year in and out of Michigan or 74,000 per day
- More than 25 million through DTW; 6th busiest airport in the country in terms of onboarding passengers
- Estimated to have about an \$11 billion annual impact on the economy (U of M, 2006)

Delta Air Lines in Michigan

- Through SkyTeam partnerships, Michigan customers have unparalleled access to the world—16,000 flights daily
- DTW hub has direct international offerings to Asia, Europe and Latin America
- DTW hub is poised to become the airline's and the nation's premier gateway to Asia

Current Economic Climate

“Airline revenue trends are every bit as bad as after September 11 and large losses by most of the network carriers are likely.”

- Kevin Crissey, Airline Analysts, UBS

Airlines facing a revenue decline of 20% since beginning of year due to:

- Worldwide economic decline
- H1N1 virus (Mexico and Asia bookings off significantly year over year)
- Rising fuel cost pressures in 2nd Q of 2009

Economic Impact on Delta Air Lines

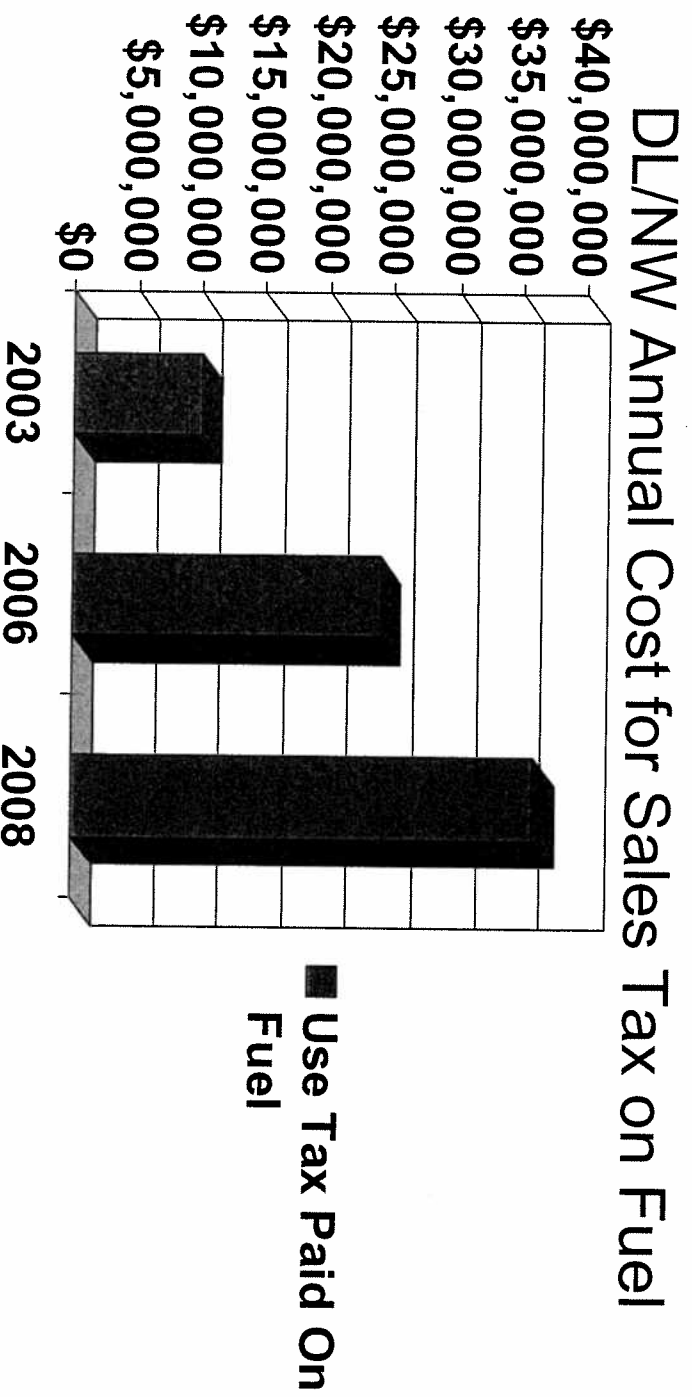
- Demand weak, especially across the Atlantic and the Pacific
- 4th Q reduction in international capacity of 15% year over year
- Corresponding reduction in domestic capacity in the 4th Q due to the lack of demand in both business and leisure markets
- We don't like making these cuts, but we simply can't afford to fly empty aircraft when the demand isn't there

Current Michigan Fuel Tax Snapshot for Delta Air Lines

- 3 cents per gallon with 1 1/2 cent credit for interstate flying =
- \$2.8 million (2008)
- 6% sales tax on all jet fuel tax purchases =
- \$34 million (2008)
- Environmental Protection Regulatory Fee =
- \$1.4 million (2008)

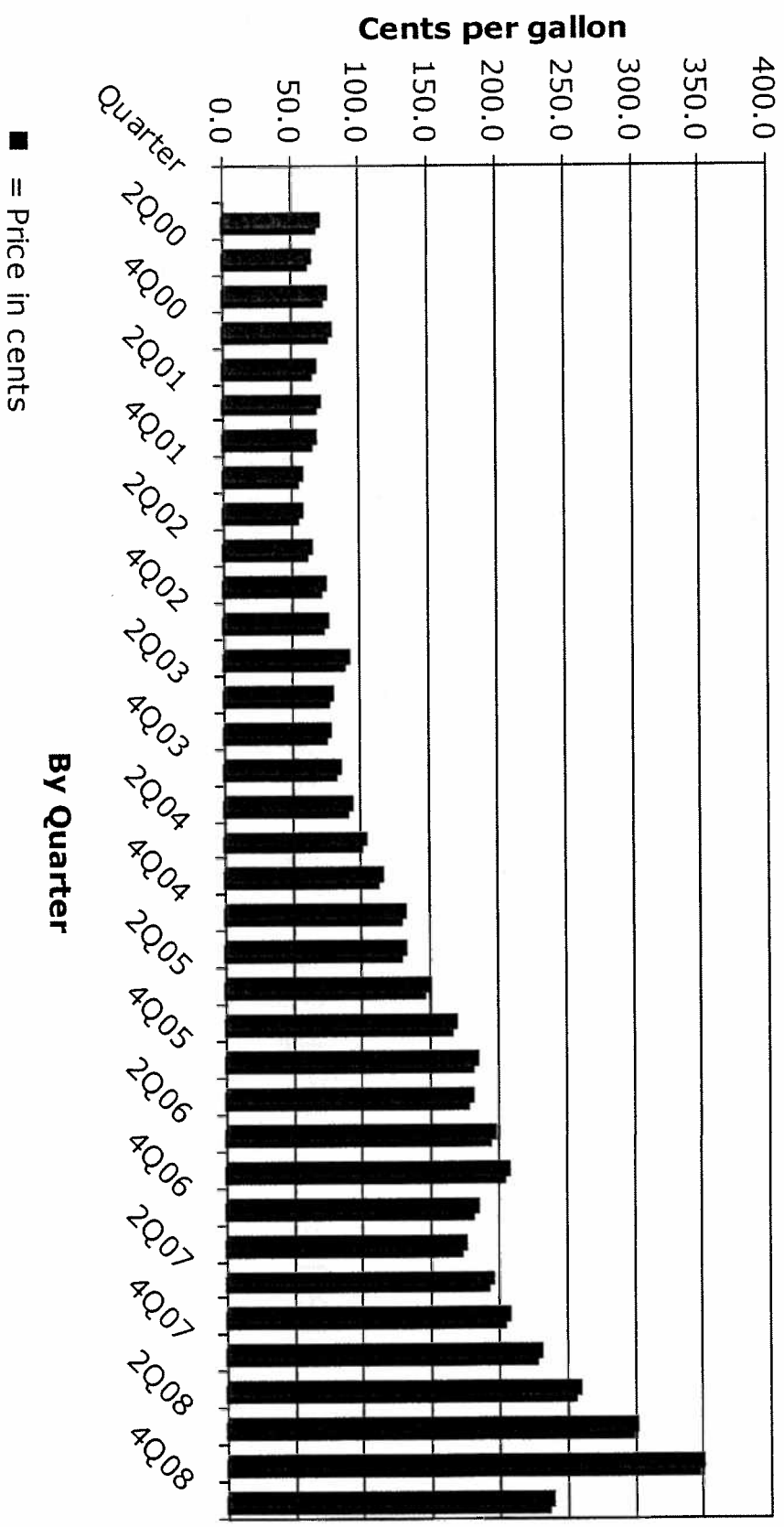
Dramatic Increase in Sales Tax

- Michigan sales tax on fuel burden has increased dramatically—at the very same time as airlines are facing unparalleled financial challenges



Why the Increase?

Historical Jet Fuel Prices



Impact of Proposed Change in Jet Fuel Tax

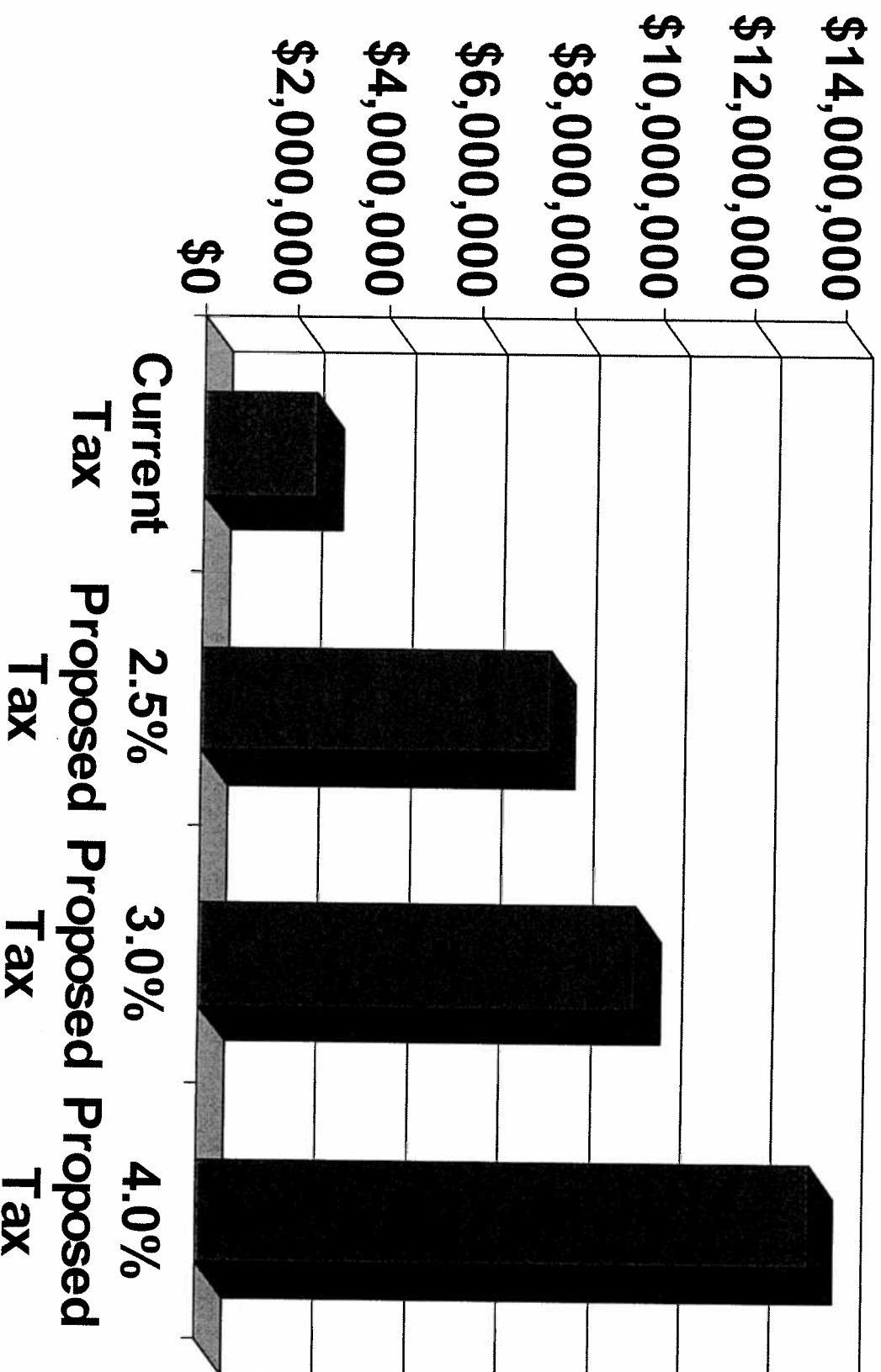
- Change from flat 3 cent per gallon tax to % of wholesale
- Unstable revenue source for state
- Unpredictable cost for airlines
 - Tax cost increases when fuel costs increase. Places additional burden on airlines during times of financial crises.
- Proposed tax exacerbates current concern regarding dramatic increase in sales tax

Impact of Proposed Change in Jet Fuel Tax

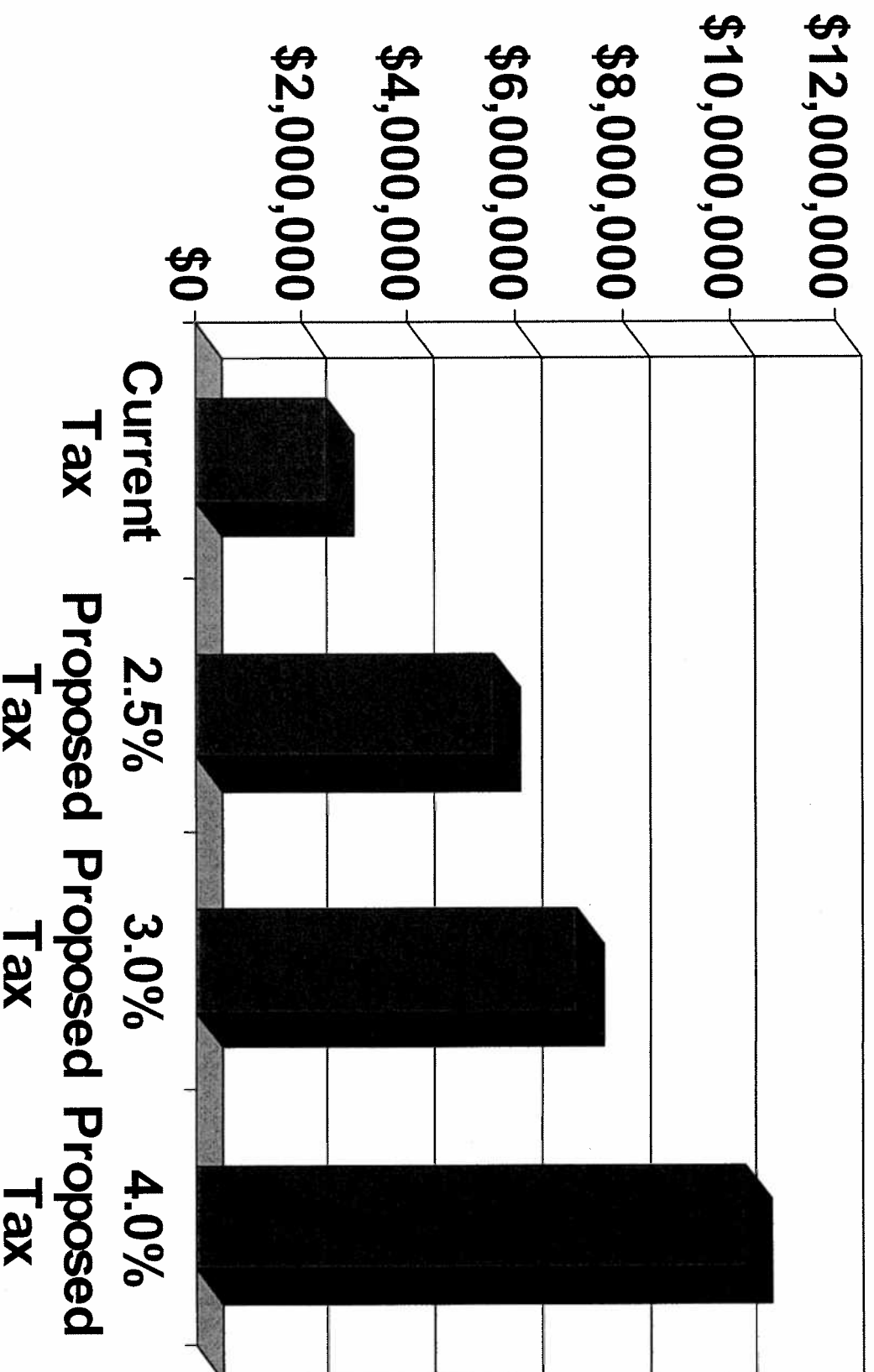
- Michigan would be only state with double percentage tax on jet fuel
- Significant additional burden without corresponding benefits
 - While bulk of passengers travel through DTW, little to no money from fund goes to DTW
- Difficult and costly to administer for both state and airline

Potential Impact of Proposed Change

Annual Delta Fuel Tax Cost At Wholesale Price of \$2.50/Gallon

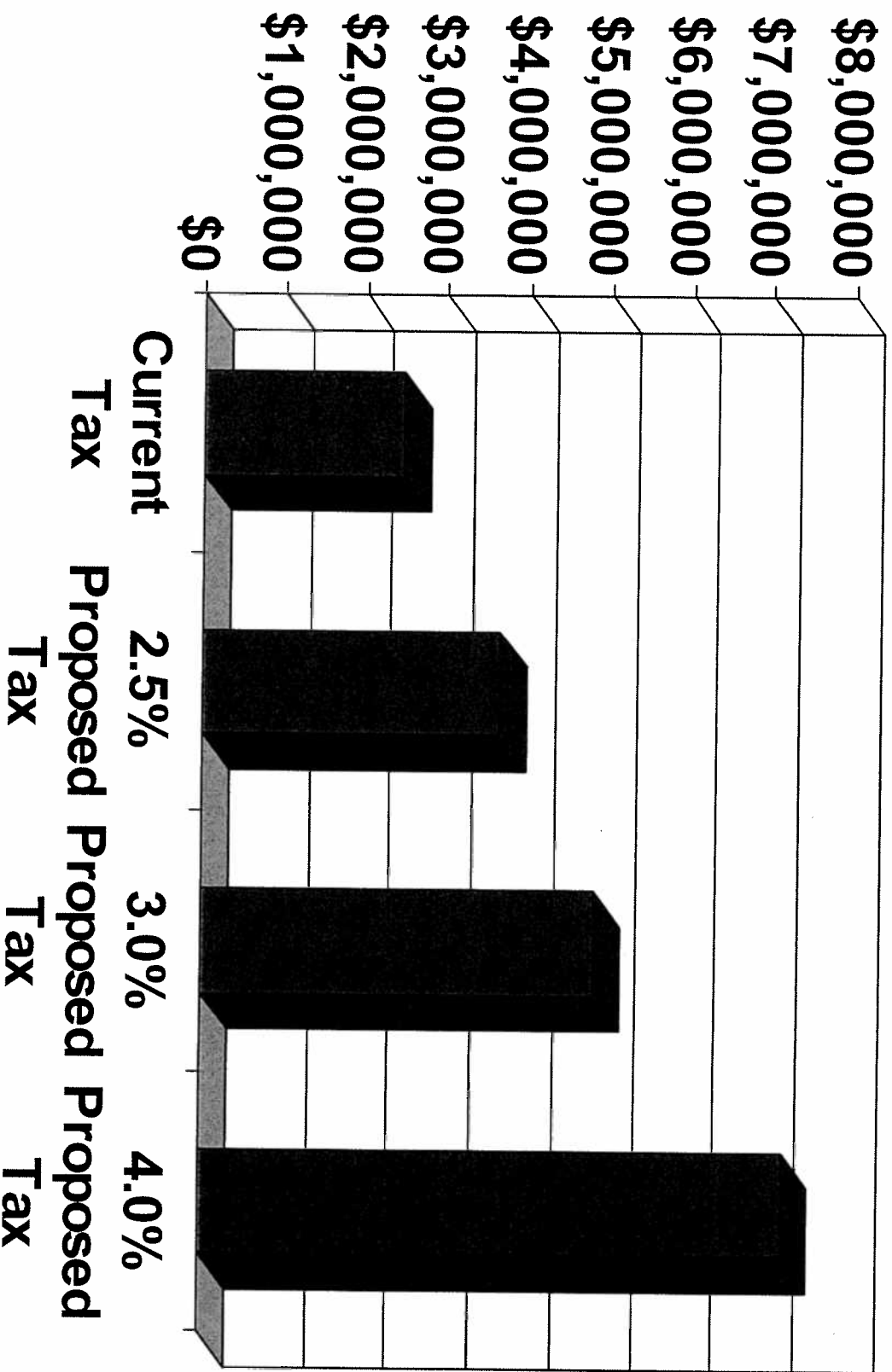


Potential Impact of Proposed Change Annual Delta Fuel Tax Cost At Wholesale Price of \$2.00/Gallon



Potential Impact of Proposed Change

Annual Delta Fuel Tax Cost At Wholesale Price of \$1.50/Gallon



Still Investing in Michigan Commercial Airport Structure

- \$93.5 million in taxiway and runway improvements at Metro Airport over next two years
- New terminal construction at Kalamazoo
- Terminal and runway project at Cherry City Airport in Traverse City
- Airfield projects and jet bridge replacement at Grand Rapids

Other Methods to Match Federal Dollars at Commercial Airports

- Landing Fees
- PFCs
- Concession Revenues

Puts Michigan at Competitive Disadvantage Vis-A-Vis Other Delta Hubs Sample of Hub State Fuel Taxes

- Kentucky (CVG)
 - 6% sales tax - \$1 million cap on jet fuel
 - No fuel tax
- Georgia (ATL)
 - 2.2% sales tax - 4% general tax less 1.8% rate reduction for jet fuel
 - No fuel tax
- Minnesota (MSP)
 - No sales tax on jet fuel
 - 5 cent per gallon flat tax for 1 million gallons, 2 cents thereafter
- Utah (SLC)
 - No sale tax on jet fuel
 - 2.5 cent per gallon flat tax

Delta Air Lines Opposed to Fuel Tax Increase

- Puts DTW at competitive disadvantage vs. other hubs
- Hard to predict
- Hard to administer
- Not necessary to drive investment in commercial airports

	<h2>Funding Michigan's Aviation Needs 2009 - 2030</h2>
	<p>Public Act 221 of 2007 TF-2 Recommendations</p>

	<h2>Aviation's Impact on Michigan</h2>
	<ul style="list-style-type: none">■ Over 100,000 jobs at airports■ 1,000 companies operate aircraft in MI■ 50 million annual passengers■ 1 billion pounds of air cargo annually■ Air access to all 83 counties■ 3 of the larger airports alone provide an annual economic impact of more than \$8 billion

	<h2>Airports Provide Global Access</h2>
	<ul style="list-style-type: none">■ Overnight Package Freight■ Benton Harbor – Whirlpool■ Grand Rapids – China■ Kalamazoo - Stryker■ Detroit – Global reach

	<h2>Aviation Industries</h2>
	<ul style="list-style-type: none">■ Aviation education■ Aircraft/component manufacturers■ Aircraft overhaul facilities<ul style="list-style-type: none">– Battle Creek– Pontiac– Oscoda

Funding Airport Projects

- **Federal Funds, (Can provide up to 95%)**

- Airways & Airports Trust Fund
- "Vision 100, Century of Aviation Reauthorization Act"
 - Funding authorization ended in Sept. 2007
 - Continuing resolution through Sept. 2008
 - Reauthorization beyond FY 2008 still in question

- **State Funds**

- Aviation fuel tax, 3¢ per gallon since 1929
- Detroit Metro parking tax
- Airport Safety and Protection Plan bonds (ended 2007)

- **Local Funds**

- Used to match federal and state grants (can also leverage private funds)

Federal/State/Local Program

- **Capital Improvement Program**

- **Block Grant state**
- **Goal is to maximize federal funds**
- **Most airports – up to 95% federal funds**
 - **Entitlements**
 - **Set-a-sides**
 - **Discretionary**
 - **State apportionment**

State/Local Programs

All Weather Airport Access - *suspended*

Crack Sealing and Marking - *suspended*

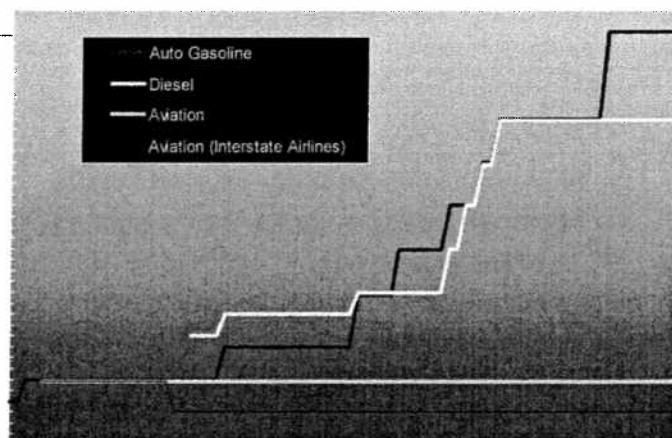
Airport Rescue & Fire Fighting Training - *suspended*

Air Service - *suspended*

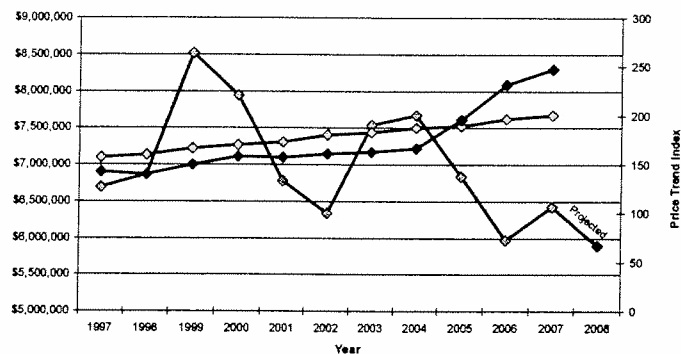
Airport Inspection

Airport & Approach Marking

Michigan Fuel Tax Rates



Costs Increasing, Revenues Declining



Asset Management

Michigan Airport System Plan (MASP)

- Three tier system
- Establishes funding priorities
- Recently Updated
- Pavement Management Programs



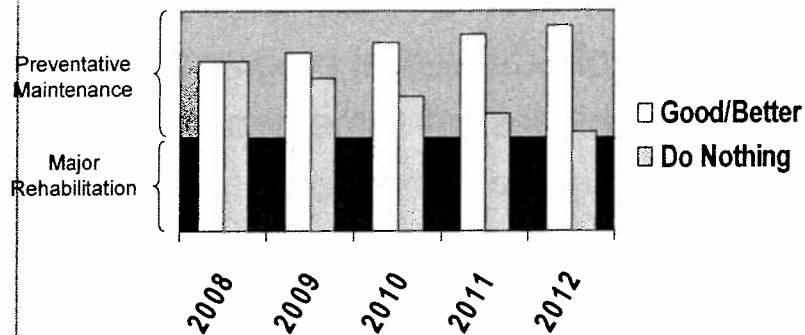
	<h2>Needs Analysis</h2>
	<ul style="list-style-type: none"> ■ Submitted Requests – ACIP 5 yr. plans ■ Long Range Plan ■ Through 2030

	<h2>Funding Alternatives</h2> <p>TF-2 Charge</p>
	<ul style="list-style-type: none"> ■ Do Nothing ■ Good ■ Better ■ Best

	<h2>Do Nothing</h2>
	<ul style="list-style-type: none">■ Loss of federal funds (\$336 million)■ Loss of State/Local programs■ Possible loss of some airports■ Deterioration of existing facilities■ Average funding level- \$121,000,000<ul style="list-style-type: none">– 2009-2030 \$2.662 billion

	<h2>Good</h2>
	<ul style="list-style-type: none">■ Reinstatement of some State/Local Programs■ Maintain existing airports■ Limited airport expansion■ Average funding level \$242,000,000<ul style="list-style-type: none">– 2009-2030 \$5.324 billion■ Increase of federal funds of \$42,000,000■ ADDITIONAL STATE DOLLARS NEEDED<ul style="list-style-type: none"><i>\$42,000,000</i>

Airport Pavement Condition (Average)



TF-2 Funding Recommendations

Statewide Revenue Options

- Increase aviation fuel tax
- Increase aircraft registration fee
- Abolish commercial airline refund
- Redirect sales tax on aviation products to Aeronautics Fund
- Change aviation fuel tax to a percent of price

	<p>Thank You!</p> <p>Comments & Questions?</p>

ALTERNATIVE: Work with Congress to increase the aviation block grant to Michigan.

As one of only 10 states that participate in the federal block grant program, Michigan benefits by having direct control of decision-making for airport development projects. MDOT, using the prioritization system established in its Michigan Airport System Plan, and working closely with airport authorities, determines priority for distribution of federal and state airport funding throughout the state.

The state also benefits from the interest received while holding the federal block grant disbursement prior to making payments for airport projects. In FY 2005, MDOT received over \$800,000 in interest.

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State sales tax at the rate of six percent of the retail price is currently levied on sales of aviation fuel and other aviation related products (aircraft, parts, etc.). The vast majority of the revenue generated from the sales tax is either constitutionally or statutorily dedicated to the School Aid Fund or the revenue sharing for local units of government.

Sales tax collected on aviation fuel averaged about \$85 million per year between 2000 and 2007. The portion of this revenue not constitutionally allocated would be 25 percent of the sales tax levied at the rate of four percent, about \$14.1 million per year. Sales tax collected on other aviation related sales was \$4.5 million, as reported by the Michigan Department of Treasury. The portion of this revenue not constitutionally allocated is \$750,000.

Redirecting the portion of the sales tax that is not constitutionally restricted would require an amendment to the General Sales Tax Act (MCL 205.75). Redirecting the entire amount of sales tax collected on aviation products would require an amendment to the State's Constitution and accompanying statutory changes. Making a specific allocation to aviation from unallocated sales tax revenue roughly equal to the amount generated by aviation related sales could be done through an amendment to the Sales Tax Act.

ALTERNATIVE: Convert the cents-per-gallon aviation fuel tax to a percent of sales price. Aviation fuel is currently taxed at a flat cents per gallon rate that does not adjust with inflation or with the sometimes more rapidly increasing price of gasoline. Converting the tax to a percent of sales price would allow it to adjust with changing fuel prices. Accomplishing this would require amendment to the Aeronautics Code of the State of Michigan (specifically, MCL 259.203).

ALTERNATIVE: Work with Congress to make reliever and super-reliever airports eligible for the same federal funding as primary airports.

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Section 7: Aviation Funding Alternatives

Because aviation funds are collected and distributed separately from funds for the surface transportation modes, the Task Force considered these funding alternatives separately from the rest. A combination of alternatives would be required to achieve a “good” level of investment.

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Each one cent increase in the aviation fuel tax would yield \$3.6 million. Increasing the aviation fuel tax by three cents per gallon would generate an additional \$10.8 million to the State Aviation Fund (SAF). Such an increase could be implemented incrementally.

Increasing the aviation fuel tax requires an amendment to the Aeronautics Code of the State of Michigan (specifically, MCL 259.203).

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The aircraft registration fee generates approximately \$287,000 per year. Taken in context with the large need for additional aviation investment, this is not a lot of revenue. But in the spirit of the conviction of the Task Force that all transportation users should pay their fair share, it is recommended that the aircraft registration fee be increased, either as a flat rate or as an *ad valorem* rate that would bring the average fee for airplane registration in line with the average fee for automobile registration.

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